



February 21, 2007

AGENDA ITEM 11

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2006 Third Quarter Self-Funded Health Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. INTRODUCTION:**

The purpose of this report is to provide the CalPERS Board of Administration (Board) with an update on the status of the financial reserves for the self-funded health plans. This report covers the third quarter of 2006 (period ending September 30, 2006).

The overall financial position of the self-funded health plans remains strong. The medical and pharmacy claims cost trend continues to show a steady decline for the 2006 year. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2006 plan year will be sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS

Anticipated Experience Due to Reserve Draw-down

At the direction of the Board a portion of the excess reserves were used to reduce the 2005 and 2006 premiums. As a direct result of this approach, the loss ratio for the entire 2006 year is expected to exceed 100 percent. At the end of the third quarter, the overall loss ratio combined for the self-funded health plans was 101 percent. This resulted in an underwriting loss of \$13.6 million overall between the four self-funded health plans. The third quarter produced results in line with expectations taking into consideration that this is the second year of the draw-down of reserves.

Assets above the actuarial reserve requirements, as of the end of the third quarter, were \$142 million, a decrease over the second quarter of \$37 million. This decrease was primarily due to the timing of premium postings in the Trial Balance. Staff will reflect this timing difference in the next quarterly report.

The following attachments provide more detailed financial and trend information.

Attachment 1

This attachment displays summary results for the third quarter of 2005 and 2006 as well as the prior two years. Although the Medicare Supplement plans continue to have high loss ratios (106 percent for PERSCare and 103 percent for PERS Choice), this represents a decrease from the prior quarter. This was expected due to the use of excess reserves combined with the Medicare effect where Medicare Supplement plans generally experience their highest claim volume early in the year as supplement plans pay for Medicare deductibles.

The most notable development is the continued higher-than-expected rolling 12-month medical claims cost trend of the PERS Choice Basic plan above the other three health plans. The PERS Choice Basic plan claims cost trend continues to increase at 12.7 percent, while the other health plans rate of increase is running at between 3.4 percent and 5.1 percent. It should be noted that all of the other self-funded health plan claims cost trends are showing a continued steady decline. Staff continues to work with our third party administrator to determine why PERS Choice claims cost is continuing to trend at a higher rate.

Attachment 2

This attachment presents the per-member-per-month (pmpm) medical and pharmacy claims costs for five quarters beginning with the third quarter of 2005.

The year-to-year medical costs show lower-than-expected increases from PERS Choice Medicare Supplement plan at 1.1 percent to PERS Choice Basic plan at 9.8 percent.

It should be noted that pharmacy claims have decreased from the second quarter back into expected ranges with 2.5 percent -7.6 percent increases in year-to-year pmpm across the four self-funded health plans. This is a change from 12.9 percent -17.4 percent increase in pmpm pharmacy costs over the second quarter of 2006. As expected this decrease follows the large increase in the second quarter caused by the transition of Pharmacy Benefit Managers as members were anticipating the change and were renewing prescriptions and prior authorization medicines early to not be caught short during the transition.

Attachment 3

This attachment presents asset values and asset changes for the self-funded health plans.

As of September 30, 2006, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over \$142 million. The excess in assets less reserves decreased by \$37 million over the second quarter, primarily due to the timing of premiums posted to the Trial Balance. Although the PERS Choice Medicare Supplement plan assets (line 12) exceed the actuarial reserve by only \$3.9 million (consistent with the second quarter), overall the asset level continues to be positive. As mentioned above the large change in assets for the PERSCare Basic program (line 2) is not a true reflection of this plan.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve.

The overall level of the assets in the self-funded health plans remains strong. The third quarter asset levels met expectations. The PERS Choice Medicare Supplement plan assets above actuarial reserves continue to be low. The surpluses in the PERS Choice Medicare Supplement plan have been consistent between the second and third quarters. Staff is closely watching this trend.

Attachment 5

This attachment shows the overall enrollment trend for the four self-funded health plans.

The PERSCare Basic plan enrollment continues to decline, which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (23,286 as of September 2006), relatively few adverse situations can have an inordinate effect on the plan's financials.

Even though the PERSCare Basic plan's financial situation remains strong at this time, staff, working with input from actuarial consultants, continues to monitor this situation.

VI. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This item is presented as information only.

Beverly Craig, Acting Chief
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Attachments